



**CITY OF SCOTTSDALE
AUDIT COMMITTEE
City Hall Kiva Conference Room
3939 N. Drinkwater Blvd
Scottsdale, AZ 85251
FEBRUARY 12, 2007**

PRESENT: Committee Chairman Lane
Committee Member Ecton
Committee Member McCullagh

STAFF: Kyla Anderson, Audit Associate
Cheryl Dreska, City Auditor
Lisa Murphy, Accounting Director
Craig Clifford, Financial Services General Manager
Lisa Blyler, Assistant to Mayor & Council
Ed Gawf, Assistant City Manager
Raun Keagy, Neighborhood Services Director
Malcolm Hankins, Code Enforcement Manager
Ramon Ramirez, Senior Auditor

OTHER: Brian Powell, Scottsdale Tribune

CALL TO ORDER/ROLL CALL

Chairman Lane called the meeting to order at 2:07 p.m. Roll call was taken confirming the presence of all Committee Members.

MINUTES - Approval of January 4, 2007, Committee Meeting Minutes

Committee Member Ecton made a motion to approve the January 4, 2007, minutes, noting the excellent job done by the reporter. Chairman Lane seconded the motion, which carried by a vote of two (2) to zero (0). Committee Member McCullagh was recused as he did not attend this meeting.

GENERAL BUSINESS

Agenda Item 1 - Update on status of Audit Report No. 0523, "Controls Over Tracking Code Enforcement Citations and Maintenance of the City Abatement Fund;" discussion, consideration, and possible action.

Discussion ensued on the Action Plan. Regarding item 1, Chairman Lane asked whether, when citations are issued and logged as either paid or set for administrative

hearing, there is a plan to document the rationale for voiding any citations. On item 2, he asked staff how they expect greater controls from code tracking.

Raun Keagy stated that staff have been working with IS to build on the existing code tracking system. He elaborated that the improved system will be automated so citations will be issued without the need for handwritten documents. Checks and balances are incorporated so citations will be correctly issued with full documentation. Responding to a question from Committee Member McCullagh, Mr. Keagy stated that the system is wireless allowing Inspectors to use laptops when making entries in the field.

Regarding item 3, Chairman Lane asked Mr. Keagy to confirm that the corrective action was indeed taken at the time of the audit. Mr. Keagy stated that it was. Now all citations issued are processed through the system to the Hearing Officer. If staff are aware of procedural errors with a particular citation, they now present it to the Hearing Officer with a recommendation for dismissal. In this way, all citations issued will be accounted for.

Committee Member McCullagh asked how this could affect an individual citizen who might not have a clean record. He stated that they do not need to have misleading information that could damage the reputation of an individual. If a citation was issued in error, merely stating that it was dismissed is unfair to the citizen.

Malcolm Hankins stated that the Hearing Officer renders a determination when a citation is dismissed. If it is dismissed for cause, the cause is stated.

Chairman Lane inquired whether the change in procedure will increase the Hearing Officer's workload significantly.

Mr. Keagy replied that the workload should be manageable because of better controls and additional checking before a citation is issued. Senior Inspectors now review every citation.

Cheryl Dreska noted there is no provision in City Code for withdrawal of citations. Ramon Ramirez stated the auditors found that about 10 citations had been pulled in the random sample of over 400, but the universe of citations could not be determined.

Mr. Keagy stated that Code Enforcement wrote a total of approximately 400 citations in 2006. Some residents paid the fines and did not go before a Hearing Officer. Staff will suggest to City Council that, in future, a person receiving a citation should have to request a hearing. This will reduce the number of hearings.

Chairman Lane asked whether the training plan has been established.

Mr. Keagy replied that the department will continue to update training. Mr. Hankins added that Code Enforcement training will be delivered through Scottsdale University. Ms. Dreska stated that timelines are set out in the section on evaluation and monitoring on page 6.

Chairman Lane asked who is responsible for follow-up and decisions regarding the oldest uncollected fines.

Ed Gawf responded that the City Manager's Office will be responsible for these decisions in consultation with Code Enforcement and Financial Services. He noted some uncertainties about the amounts owing, which consists of original fines plus penalties. Discussion ensued.

Craig Clifford advised that the largest portion of the monies owed is the add-on penalties and City Code does not allow a waiver. He is opposed to changing the Code, however. He believes it is better to write off the oldest unpaid fines as bad debts, which many of them likely are. The original citations were issued to change behavior, not to raise revenue. The improved system, with better follow-up, will avoid a repeat of this situation.

Chairman Lane asked who is responsible for debt collection decisions so that, in future, large penalties do not accumulate.

Mr. Clifford stated that there is a need to bring forward a recommendation as part of the Code changes. Mr. Gawf added that the overall responsibility for this function is his. The Finance Manager is responsible for billing and collection.

Ms. Dreska confirmed to Committee Member McCullagh that the City has the right to place a lien on properties in certain situations.

Chairman Lane suggested setting a period for penalties rather than allowing them to accumulate for years.

Mr. Gawf commented that this is an excellent point, since there is a point at which add-on penalties do not change behavior.

Chairman Lane asked whether the City Auditor had established definitive recommendations that are reflected in the document.

Ms. Dreska replied that their discussions with staff are on the same lines as the current discussion. A process is now in place to send citations to Financial Services for collection. Aged accounts will be forwarded to revenue recovery and will be treated like all other collectibles. It is her understanding that Financial Services will make a decision before the end of this fiscal year regarding the aged accounts and this will be brought forward as part of the year-end request for other uncollectible debts.

Chairman Lane asked Ms. Dreska whether she believes that the timelines are realistic. She indicated that they are.

Committee Member Ecton noted that this is a departure from what the Audit Committee usually does. It would have been preferable to have these responses when they reviewed the audit. He sees the Audit Committee's role as reviewing and understanding the audit and the responses. Perhaps either the audit was rushed or the responses were not made quickly.

Chairman Lane added that at the last meeting he had requested that this discussion be agendaized because he wanted to be certain that the auditors' recommendations were reflected. He appreciated Committee Member Ecton's comment. Mr. Gawf agreed that staff also preferred having the responses at the time of the audit.

Committee Member McCullagh asked if there had been any issues that staff were not in agreement on.

Ms. Dreska recalled there was one instance in which staff was in agreement on the resolution but not in agreement on the potential effect of the condition. Specifically, in the past, if a resident paid a fine within fifteen days, no hearing would take place. The Code is written so that the Administrative Hearing Officer has discretion to reduce the amount of the sanction. This puts the recipient of the citation in the position of having to make a choice, either pay the sanction or go to the administrative hearing where the fine might possibly be reduced. If the Code is changed requiring the recipient to request a hearing, this problem would be eliminated.

Mr. Keagy interjected that since the audit, pro tem judges are dealing with the backlog of hearings. This may be a permanent solution to this question.

Chairman Lane expressed the Committee's appreciation for the hard work done by staff in this regard. Mr. Keagy added his staff's thanks to the auditors for their helpful feedback.

Agenda Item 2 - Update by City Auditor on status of current projects.

a. Cab Connection Program

Ms. Dreska stated that the draft report is through final edit and staff are completing follow-up work. The report should be sent to management next week.

b. Cash Handling Audits

Ms. Dreska stated that the combined cash handling report was provided to management for comment last week.

c. WestWorld Financial Audit

Ms. Dreska reported that staff are on site completing a review of the files. They plan to trace a sample of payments and review expense handling procedures.

Committee Member Ecton asked about the financial reporting relationship for WestWorld.

Lisa Murphy replied that WestWorld maintains its own accounting system but uses the City's central cashiering system.

d. Cultural Council Management Services Agreement

Ms. Dreska reported that staff anticipate completing the final phase of this audit within the next two weeks.

e. Streetlight Billing

Ms. Dreska stated that there were no outside vendor responses to the RFP. She suggested reconsidering this audit in a year's time.

f. Housing Assistance and Community Block Grant Development Program

Ms. Dreska stated that preliminary survey work is currently under way. The auditor assigned to the project is attending the Human Services Commission meetings at which the grant requests are being considered.

Ms. Dreska stated that the Scottsdale Cares requests are also currently under consideration and staff is gathering preliminary information for this audit.

Ms. Dreska stated that staff will be reviewing the controls over outside law firm use by the City Attorney's Office starting in March.

Agenda Item 3 - Discussion, consideration, and possible action on the Audit Plan for calendar year 2007.

Ms. Dreska presented a list of potential audits for consideration for calendar year 2007. The packet also includes the Proposed Audit Plan that was presented at the January meeting.

Chairman Lane asked for an estimate of the total number of hours needed to complete the Proposed Plan. Ms. Dreska replied that it is slightly under eleven thousand hours, which is feasible assuming that the department is fully staffed and no unforeseen circumstances are encountered. She agreed with Committee Member Ecton that, realistically, they need to cut back on the Proposed Plan. The Committee began a systematic review of the Proposed Plan.

Committee Member Ecton stated that it is too early to audit the new trolley service. Ms. Dreska clarified that staff propose auditing all the trolley services, not just the route to the Senior Center that started in July. Discussion followed.

In response to a question from Chairman Lane, Ms. Dreska would recommend removing item 6, Southern Area Fee Reduction Efforts. This program has been in effect for a couple of years and could be postponed. She added that deciding whether to audit newer programs is a philosophical question. Is it better to audit early on and catch potential problems or is it better to have more history to audit.

Committee Member Ecton commented that a third issue is how much money is involved. Ms. Dreska noted that more money is at stake with the trolley service. Noting that more hours are estimated for the audit of the Southern Area Fee Reduction Efforts, Chairman Lane stated that he is more inclined to keep the trolley service audit in place.

Ms. Dreska stated that she would also recommend postponing item 10, Surplus Property Disposal. Chairman Lane stated that the Committee would consider items 6 and 10 as candidates for elimination based on her recommendations.

Chairman Lane commented that the estimated four hundred hours for item 2, Handling Wage Garnishments, Tax Levies, and Support Orders, seemed high. Ms. Dreska explained this estimate was arrived at after consulting with auditors who have past experience in this area. The consensus of the Committee was to retain this proposed audit.

Regarding item 3, Collection and Distribution of Scottsdale Cares Donations and United Way Contributions, Committee Member Ecton asked who was responsible for distributing the funds.

Ms. Dreska stated that it depends on the program. For Scottsdale Cares, applicants appear before the Human Services Commission. Employees who choose to contribute to United Way choose the organizations they wish to contribute to.

Committee Member Ecton asked whether the Scottsdale Cares funds in question are significant enough to audit. Discussion on the amount generated annually by Scottsdale Cares ensued. Ms. Dreska noted that the City has a fiduciary responsibility to ensure that funds are used correctly. Discussion on United Way ensued.

Committee Member Ecton stated that there is less value in performing this audit since employees receive receipts from United Way for tax purposes. Ms. Dreska explained that the auditors want to be sure that there is a distribution process in place and that funds, once withheld from an employee's pay, are distributed to the agency in a timely fashion. Chairman Lane commented that they could save an estimated two hundred hours by not performing this audit.

The Committee continued to review the items on the list of proposed audits with Ms. Dreska providing a brief overview of each item and answering Committee Members' questions.

It was the consensus of the Committee to remove item 6, Southern Area Fee Reduction Efforts, from the 2007 Audit Plan.

Ms. Dreska explained that item 7, Use of Highway User Revenue Funds, is a restricted revenue source that Financial Services tracks in a special revenue fund. The audit would test controls.

Mr. Clifford confirmed to Committee Member Ecton that the external auditors review this area. Ms. Dreska stated that before starting their audit, staff will, as always, check with the external auditors to see what testing they have performed. Their testing is at a higher level and not as detailed as staff are recommending. Staff propose to examine specific expenditures to make sure they are eligible expenditures. Mr. Clifford assured the Committee that the program expenditures, annually, are greatly in excess of the gas tax collected by the City. Discussion followed on the Cab Connection program, the gas tax, and the transportation privilege tax portion of sales tax collected by the City. Ms. Dreska stated that she would agree with Mr. Clifford for the most part, however, several restrictive revenue sources are going into one special revenue fund that is used to pay the costs of the transportation program. They need to be absolutely certain that everything in the cost of the transportation program falls under the restrictions for the different revenue sources or that the amount that goes in from the General Fund transfer is more.

Committee Member Ecton asked Ms. Dreska why she thinks the Cab Connection does not fall under transportation. Ms. Dreska explained that the Cab Connection is a mobility program, not a transit improvement program, because public transportation is not used. The privilege tax is restricted to transit improvements.

Committee Members discussed the proposed audit of victim services. Ms. Dreska stated that staff propose to audit compliance with state and federal regulations and might also broaden the scope of the audit to review performance measures. Committee Member Ecton stated that evaluating alternative approaches to service delivery and eliminating barriers that inhibit program effectiveness is not an audit responsibility. Chairman Lane stated that he saw it as a matter of interviewing management in an effort to refine the system to facilitate better service. Committee Member Ecton replied that he does not feel the auditors are qualified to make suggestions to improve victim services. Ms. Dreska clarified that they are proposing a standard performance audit.

Regarding item 18, Change Orders and Contract Modifications for Projects Managed by the Capital Project Management Division, Ms. Dreska stated that this would be limited to projects managed by Capital Project Management.

Committee Member Ecton asked how far back this audit would go. He expressed a concern about a conflict of interest Ms. Dreska would have personally if the audit went too far back. Ms. Dreska stated that they could start the scope from April 2006 to avoid that problem, adding that the auditors are more concerned with ensuring that the new changes to the Administrative Regulations are being followed.

Committee Member Ecton stated that this audit should look back a couple of years. Ms. Dreska suggested an outside auditor could perform this audit. Discussion ensued. In the past, Ms. Dreska recalled that senior staff performed audits of capital projects and the Assistant City Auditor reviewed the work. This could be feasible. Discussion ensued. Committee Member Ecton reiterated that this approach does not totally solve the conflict of interest.

Mr. Ramirez assured the Committee that senior auditors work autonomously. If they need advice, they consult with another colleague who does not have a conflict of interest. This approach has been effective. Chairman Lane recommended following the same approach in this case.

Ms. Dreska reminded the Committee that at the start of an audit, every auditor must consider whether they have any impairment to doing the work and sign a work paper confirming this. At the end of the audit, every auditor must prepare and sign a scope impairment document that sets out any impairments or influences that would cause them to reduce the scope of an audit. They are professionally obligated to be accurate and truthful. This is reviewed and discussed with another auditor. Every audit includes this quality assurance process. She has advised all staff that if they ever feel that she has a conflict of interest in any regard, they are to raise this with the City Attorney's Office or Human Resources.

Committee Member Ecton asked for information regarding the original list of audits for 2006 and which of those have been completed. He stated that this comparison should be part of the department's performance measurement, although he noted that it is expected that some audits take longer than estimated. It would also be interesting for the Committee to see a comparison of estimated versus actual hours for each audit.

Ms. Dreska undertook to provide this information, adding that they completed about half of what was on the Audit Plan for 2006. Committee Member Ecton commented that this list for 2007 may still be too long. Before the Committee approves this year's Proposed

Plan, he would like to see further consideration. He appreciates that department staff are trying to do as much as they can. However, a list that far exceeds their capacity serves no purpose.

Ms. Dreska commented that they need more audits on the list than they can do because sometimes they discover that a particular audit is not worth carrying out. Also, they have to time audits so that other City staff are not unduly inconvenienced.

Committee Member Ecton replied that the department could bring these issues back to the Audit Committee to be taken to City Council. Chairman Lane commented that the Committee approves an annual Audit Plan which may or may not actually be accomplished in the course of the year. Ms. Dreska reminded the Committee that under City Code, the Committee has the authority to modify the Audit Plan during the year if necessary. Discussion ensued.

Committee Member McCullagh asked what happened to the audits that were not completed in 2006. Ms. Dreska replied that some are on the list for 2007; some are currently under way. Committee Member McCullagh commented that failing to complete half of the audits on the Audit Plan is not very good. He suggested eliminating more items from the 2007 list to make it more likely that the remaining items will in fact be completed in 2007. If they complete the list, staff could move on to the eliminated items. He believes that the current list is so long that everything on it will not be completed, in light of past experience.

Ms. Dreska estimated staff could realistically complete 20 audits in 2007. The list currently stands at 23 items plus follow-ups. Discussion on the philosophy of performance measures ensued. Chairman Lane noted that it would be a mistake to penalize the auditor's performance if they needed to take longer to investigate a particular situation. He suggested eliminating the two items already discussed.

Committee Member Ecton stated that he would like to revisit this issue once more at the next meeting, taking into consideration the estimated and actual hours from 2006. It was the consensus of the Committee to do this. Ms. Dreska was asked to bring back this information and also identify which of the 2007 projects were requested by management and the auditors' thoughts on which items are priorities so the Committee could set a prioritized list.

Agenda Item 4 - Discuss and consider language in draft pamphlet prepared by the Auditor's Office for distribution to staff as part of outreach efforts.

Ms. Dreska stated that staff have made revisions to the draft, by removing references to "internal audit."

Chairman Lane asked why some sections are in italics. Ms. Dreska replied that these are summaries.

Committee Member McCullagh suggested that the first step in the process is "audit authorization," rather than "audit approval."

Ms. Dreska summarized that this draft is fundamentally the same as the previous draft, with some revisions in the audit process section. She offered to bring this back for discussion at the next meeting.

Agenda Item 5 - Update on the status of the recruitment for Assistant City Auditor; possible action on process to follow for hiring

Ms. Dreska provided an update on the search for a new Assistant City Auditor.

PUBLIC COMMENTS

None.

COMMITTEE COMMENTS

None.

ADJOURNMENT

With no further business to discuss, Committee Member McCullagh made a motion to adjourn the public meeting of the Audit Committee. Committee Member Ecton seconded the motion and the motion carried. The Audit Committee meeting was adjourned at 4:02 p.m.

Submitted by

Reviewed by

A/V Tronics, Inc.

Cheryl Dreska
City Auditor